

JUL 8 1982

Dear Applicant:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code of 1954.

The information submitted discloses that you were organized under bylaws on [REDACTED].

Your stated purposes are the provision of facilities where drag racing events can occur twice monthly throughout the summer months to the end of September. You also plan to direct and supervise the conduct of these biweekly race events where the only prerequisite to participation is an interest in the sport of drag racing. No other events are conducted by your organization.

Your organization has no formal dues paying membership. While you state that membership in your organization is open to anyone interested in the sport of drag racing you have no special classes of membership nor specific rights, responsibilities or requirement to pay dues. Moreover, your bylaws state that anyone who supports, assists or volunteers his labor at the race track is considered a member in good standing. Your bylaws indicate that anyone present at the annual December meeting shall be permitted to vote for candidates for membership on your governing council without respect for any other factors.

Public attendance at race events is actively solicited by distribution of flyers to prospective race car drivers and reporting to the news media your schedules of race events and their outcomes for public broadcast and/or publication.

All of your gross receipts are obtained from public admissions and race entry fees. Approximately two-thirds of your gross receipts is paid out as purse winnings with the remainder expended for operational and

CODE	INITIATOR	REVIEWER	REVIEWER	REVIEWER	REVIEWER	REVIEWER	REVIEWER
SUR NAME							
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Section 501(c)(7) of the Code exempts from Federal income tax clubs organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, no part of the net earnings of which inures to the benefit of any private shareholder. In general, exemption from Federal income tax under this section encompasses social and recreational clubs which are supported solely by membership fees, dues and assessments.

Section 1.501(c)(7)-1(b) of the Income Tax Regulations provides, in part, that a club which engages in business, such as making its social and recreational facilities available to the general public, is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and is not exempt from Federal income tax under section 501(a) of the Code. The solicitation of public patronage of activities, by advertising or otherwise, is *prima facie* evidence that the club is engaged in business and is not being operated exclusively for pleasure, recreation or social purposes.

Revenue Ruling 56-475, 1956-2, C.B. 308 concludes that an organization formed to promote interest in stock car races is not exempt if it conducts races and part of the proceeds from public admissions is distributed to member participants. This ruling supported its finding on the basis that distributions of monies to members who either won or placed in race events constituted inurement to members; and that this runs contrary to the description provided in section 501(c)(7) of clubs organized and operated exclusively for pleasure, recreation and other nonprofitable purposes.

Revenue Ruling 66-149, C.B. 1966-1, page 147 states, in part: "The statute contemplates that clubs falling within the ambit of section 501(c)(7) of the Code are designed primarily to provide for the pleasure and recreation of members. The activities may be supported by funds obtained from members, such as dues, assessment and payment for the use of club facilities. However, to the extent that income is derived from nonmember sources, it inures to the benefit of the members. If such activities are other than incidental, trivial, or nonrecurrent, it is considered that they are intended to produce income and are reflective of a purpose inconsistent with exemption under section 501(c)(7) of the Code."

Effective for taxable years beginning after October 20, 1976, P.L. 94-568 amends the requirements for tax exemption for social clubs and similar organizations. One of the changes is that "substantially all" of such an organization's activities must be for pleasure, recreation, and other nonprofitable purposes. This change, from the previous "exclusively", permits an organization to earn income from nonmember sources to a limited extent and to have a limited amount of investment income (both types of income being subject to tax) without losing its general exemption from Federal income tax. An exempt social club is permitted to receive up to 35 percent of its gross receipts from a combination of investment income and receipts from nonmembers so long as the latter do not represent more than 15 percent of total receipts.

[REDACTED]

Your conduct of race car events where attendance or participation in competition is by members of the public for a fee is evidence that you are engaged in a business which is similar to that conducted by for-profit race car and track organizations. Moreover, the level of your gross receipts received from members far exceeds the limit designated in public law 94-568. And finally, you are similar to the organization described in Revenue Ruling 56-475 in that payments of purse monies results in inurement to those individuals participating in race car competitions.

Accordingly we hold that you are not entitled to recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code. You are required to file Federal income tax returns on Form 1120 for each year you have been in existence.

We are not ruling on your qualifications for exemption under any related paragraph of Internal Revenue Code 501(c)

If you accept our findings, you do not need to take further action.

If you do not accept our findings, we recommend that you request a conference with the Office of Regional Director of Appeals. Your request for a conference should include a written appeal giving the facts, law, and any other information to support your position as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a conference. The conference may be held at our Regional office or, if you request, at any mutually convenient District office.

If we do not hear from you within 30 days from the date of this letter, this ruling will become final. If you have any questions, please contact the person whose name and telephone number are shown above.

Sincerely yours,

[REDACTED]
District Director